

IN THE MATTER OF:

**Administrative Proceeding
No. S-09-0084**

Respondents.

COMES NOW Patricia Melvin for the Securities and Charities Division of the Mississippi Secretary of State's Office ("Division"), on behalf of Secretary of State C. Delbert Hosemann, Jr., and issues this Summary Cease and Desist Order and Notice of Intent to Impose Administrative Penalty ("SCDO") against Respondents Lampton Street Church Financial Services, Inc. ("LCFS"), Lampton Street Church of Christ, Inc. ("COC"), and Harvey M. Jackson ("Jackson") for violating provisions of the Mississippi Securities Act ("Act"), Miss. Code Ann. Sections 77-71-101(2000) *et. seq.* In support thereof the Division respectfully submits as follows:

To ensure the protection of the public, the Mississippi Legislature mandates that issuers of securities and companies and individuals effecting or attempting to effect purchases or sales of securities follow explicit legal requirements. The Division is charged with the responsibility of administering and regulating securities under the Act which governs persons who operate in the securities industry. Upon due consideration of the subject matter of this action, and having

confirmed the use of acts and practices which operated as a fraud or deceit in the sale of securities, the Division finds that LCFS, COC, and Jackson have submitted to the jurisdiction and regulatory authority of the Secretary of State.

II. HISTORY

A. PARTIES

1. Lampton Street Church Financial Services, Inc., an organization purported to be incorporated, can be served with this SCDO by service on Harvey M. Jackson, Executive Chairman, at Post Office Box 358, Mound Bayou, Mississippi 38762.
2. Lampton Street Church of Christ, Inc., a Mississippi nonprofit corporation, can be served with this SCDO by service on its registered agent, Harvey M. Jackson, at Post Office Box 358, Mound Bayou, Mississippi 38762.
3. Harvey M. Jackson, individually, may be served with this SCDO by service at 102 Colonial Drive, Cleveland, Mississippi 38732.

B. INVESTIGATION

4. After receiving an investor complaint, the Division opened an investigation into possible use of acts and practices which operated as a fraud or deceit in the sale of securities.
5. The Complainant, a member of the Lampton Street Church of Christ, alleged that his Pastor, Harvey M. Jackson, approached church members with an investment opportunity. In exchange for loaning money to the Lampton Street Church Financial Services, Inc., through one (1) year "Agreements" or promissory notes ("notes") investors would receive eight percent (8%) to ten percent (10%) interest and return of their principal.

It appears that the LSFS was to be a lender and the money invested by church members was to be used to fund loans made by LSFS at twenty-eight percent (28%). Of the twenty-eight percent (28%), investors were to receive twenty-four and four tenths percent (24.4%), forty-eight and nine-tenths (48.9%) was to be used for administrative costs, and twenty-six and eighty-nine tenths percent (29.89%) was a founder's fee. The church was to receive two percent (2%) at the end of the calendar year.

From 1991 when the scheme began through 2008, six (6) church members invested more than Four Hundred Thousand Dollars (\$400,000.00).

In reality, the money was deposited in the church's general maintenance account or its building account and used for the church's operating expenses and capital improvements.

When the investors began demanded a return of the principal, the church attempted to renegotiate the repayment terms. The church sought to change the loan terms. Specifically, the church sought:

- a. Forgiveness of the outstanding year's interest;
- b. To be allowed to repay the principal over time instead of at the end of the year with no interest over the life of the loan.

6. The following documents were acquired during the course of the Division's exam:

- (a) A document styled "Policies and Procedures By-Laws of Lampton Street Church of Christ Financial Services, Inc. ("Policies and Procedures"), which is attached as Exhibit "A."

- (b) An “Agreement” dated November 8, 2006, evidencing a promissory note from LCFS to **Verline Ward–Williams**, in the amount of One Hundred Thirty-Four Thousand Dollars (\$134,000.00) at eight percent (8%) interest, which is attached as Exhibit “B.”
- (c) An “Agreement” dated November 8, 2005, evidencing a promissory note from LCFS to **Verline Ward–Williams**, in the amount of One Hundred Fourteen Thousand Three hundred Seventeen Dollars and Twenty-Five Cents (\$114,317.25) at eight percent (8%) interest, which is attached as Exhibit “C.”
- (d) An “Agreement” dated June 19, 2002, evidencing a promissory note from LCFS to **Verline Ward**, in the amount of One Hundred Thirty Seven Thousand Four Hundred Eight-Four Dollars and Thirteen Cents (\$137,484.13) at eight percent (8%) interest, which is attached as Exhibit “D.”
- (e) A document styled “Investor’s Investments As of December 23, 2008” showing a current balance (as of December 23, 2008) owed by LCFS to **Verline Ward** in the amount of One Hundred Fifty-Eight Thousand Two Hundred Twenty-Seven Dollars and Twenty-Seven Cents (\$158,227.20), which is attached as Exhibit “E.”
- (f) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for **Verline Ward** from November 8, 2003 to January 8, 2009, which shows the balance owed as of January 8, 2009, as One Hundred Fifty-Eight Thousand Two Hundred Twenty-Seven Dollars and

Twenty-Seven Cents (\$158,227.20). The “Investment Report” is attached as Exhibit “F.”

- (g) A document styled “Lampton Street Church of Christ Financial Services Investment Report” from February 4, 1992 to June 19, 2003, for “investor” **Verline Ward** which shows the balance owed as of June 19, 2003, as One Hundred Forty-Eight Thousand Four Hundred Eighty-Two Dollars and Eighty-Six Cents (\$148,482.86). The “Investment Report” is attached as Exhibit “G.”
- (h) An “Agreement” dated October 10, 2003, evidencing a promissory note from LCFS to **Nancy Burr**, in the amount of Fifty-Nine Thousand Ninety-Nine Dollars and Fifty Cents (\$59,099.50) at eight percent (8%) interest, which is attached as Exhibit “H.”
- (i) An “Agreement” dated November 23, 2003, evidencing a promissory note from LCFS to **Nancy Burr**, in the amount of Twenty-Eight Thousand Eight Hundred One Dollars and Seventy-Six Cents (\$28,801.76) at eight percent (8%) interest, which is attached as Exhibit “I.”
- (j) A document styled “Investor’s Investments As of December 23, 2008” showing a current balance owed by LCFS to **Nancy Burr McCollum** in the amount of Eighty-Seven Thousand Seven Hundred Sixteen Dollars and Twenty-Six Cents (\$87,716.26), which is attached as Exhibit “J.”
- (k) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for **Nancy Burr** from October 1, 1991 to October 1, 2008, showing a beginning balance of Fifteen Thousand Dollars

(\$15,000.00). This document reflects two (2) different interest rates – 10% effective 10-1-95 and 8% effective 10-1-97. The beginning balance is Twenty-Four Thousand Dollars (\$24,000.00) and ending balance as of October 1, 2008, is Forty-Five Thousand Three Hundred Ninety-Seven Dollars and Five Cents (\$45,397.05). The “Investment Report” is attached as Exhibit “K.”

- (l) A document styled “Lampton Street Church of Christ Financial Services Investment Report” from November 23, 1995 to November 23, 2008, for “investor” **Nancy Burr** showing a beginning balance of Fifteen Thousand Dollars (\$15,000.00) and an ending balance as of November 23, 2008, of Forty Two Thousand Three Hundred Nineteen Dollars and Twenty-One Cents (\$42,319.21). The “Investment Report” is attached as Exhibit “L.”
- (m) An “Agreement” dated September 23, 2003, evidencing a promissory note from LCFS to **Annie Sue Johnson**, in the amount of Nine Thousand Five Hundred Twenty-One Dollars and Twenty-Four Cents (\$9,521.24) at eight percent (8%) interest, which is attached as Exhibit “M.”
- (n) An “Agreement” dated December 15, 2003, evidencing a promissory note from LCFS to **Annie Sue Johnson**, in the amount of Three Thousand Eight Hundred Forty-Nine Dollars and Thirty-Seven Cents (\$3,849.37) at eight percent (8%) interest, which is attached as Exhibit “N.”
- (o) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for “Investment #1” for **Annie Sue Johnson** from December 1, 1996 to December 15, 2008, showing a beginning balance of

Three Thousand Dollars (\$3,000.00) and a balance as of December 15, 2008, of Five Thousand Six Hundred Fifty-Five Dollars and Nienty-Six Cents (\$5,655.96). The “Investment Report” is attached as Exhibit “O.”

- (p) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for “Investment #2” for **Annie Sue Johnson** from September 23, 1997 to September 23, 2008, showing a beginning balance of Three Thousand Dollars (\$3,000.00) and an ending balance of Six Thousand Seven Hundred Eighty-Eight Dollars and Three Cents (\$6,788.03), which is attached as Exhibit “P.”
- (q) An “Agreement dated October 2, 2008, evidencing a promissory note from LCFS to **Earnest/Georgia Ward**, in the amount of One Hundred Forty-Five Thousand Eight Hundred Eighty-Nine Dollars and Twenty-Seven Dollars and Twenty-Seven Cents (\$145,889.27), at eight percent (8%) interest, which is attached as Exhibit “Q.”
- (r) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for the time period beginning September 1, 1991 to October 1, 2001, for “investor” **Earnest/Georgia Ward** showing a beginning balance of Four Thousand Dollars (\$4,000.00) and an ending balance of Thirty-Two Thousand Four Hundred Twenty-Two Dollars and Sixty-Three Cents (\$32,422.63), which is attached as Exhibit “R.”
- (s) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for the time period beginning October 2, 2007, to October 2, 2009, for “investor” **Earnest/Georgia Ward** showing a

beginning balance of One Hundred Twenty-Two Thousand Forty Dollars (\$122,040.00) and an ending balance of One Hundred Fifty-Seven Thousand Five Hundred Sixty Dollars and Forty-One Cents (\$157,560.41) which is attached as Exhibit “S.”

- (t) An “Agreement” dated November 3, 2007, evidencing a promissory note from LCFS to **Ruthie Mae Ward**, in the amount of Seven Thousand Nine Hundred Thirty-Four Dollars and Thirty-Six Cents (\$7,934.36), at eight percent (8%) interest, which is attached as Exhibit “T.”
- (u) An “Agreement” dated June 6, 2007, evidencing a promissory note from LCFS to **Ruthie Mae Ward**, in the amount of Six Thousand Four Hundred Seventy-Six Dollars and Seventy-Four Cents (\$6,476.74), at eight percent (8%) interest, which is attached as Exhibit “U .”
- (v) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for the time period beginning November 1, 2001 to November 3, 2008, for “investor” **Ruthie Mae Ward** showing a beginning balance of Five Thousand Dollars (\$5,000.00) and an ending balance of Eight Thousand Five Hundred Sixty-Nine Dollars and Ten Cents (\$8,569.10), which is attached as Exhibit “V.”
- (w) A document styled “Lampton Street Church of Christ Financial Services Investment Report” for the time period beginning May 21, 1994 to June 4, 2008, for “investor” **Ruthie Mae Ward** showing a beginning balance of Three Thousand Dollars (\$3,000.00) and an ending balance of Six

Thousand Nine Hundred Ninety-Four Dollars and Eighty-Seven Cents (\$6,994.87), which is attached as Exhibit “X.”

(x) A copy of Dr. Harvey M. Jackson’s check number 7917 dated June 29, 2008 to **Ruthie Ward** in the amount of Six Thousand Nine Hundred Ninety-Four dollars and Eighty-Seven Cents (\$6,994.87). The check is attached to this SCDO as Exhibit “Y.”

6. All of the “Agreements” are actually promissory notes which are securities pursuant to Miss. Code Ann. Section 75-71-105(n).

III. ALLEGATIONS

7. Lampton Street Church Financial Services, Inc. has neither filed formation documents, nor has it applied for and received a certificate of authority with the Business Services Division of the Mississippi Secretary of State’s Office. See Affidavit of Rita Bingham, Director of the Business Services Division of the Mississippi Secretary of State’s Office which is attached as Exhibit “Z.”

8. LSFS’s use of the designation “Inc.” implies to investors and the public that it has complied with statutory formation requirements. Further, it implies to investors and the public that the business of the corporation will be conducted in compliance with statutory requirements.

9. Other than to enter into promissory notes styled “Agreements”, LSFS never conducted business.

(a) The investments from the promissory notes were not deposited into a bank account in its name.

(b) LSFS did not conduct regular board meetings.

- (c) Repayment of the promissory notes was made by Jackson, not LSFS.
10. There is no evidence to suggest that LSFS was anything more than a name used to acquire money for the church.
 11. Instead of segregating the funds in a separate account upon receipt of a new subscription and holding the money for the stated use, the church admits that the funds received from investors were deposited into either its general maintenance account or its building account. Further, COC admits it used the funds for operating expenses or capital improvements.
 12. Leading investors to believe that their funds would be used to make loans which would generate interest income was an untrue statement of a material fact in violation of Miss. Code Ann. Section 75-71-501 (2).
 13. Jackson and COC, a Mississippi nonprofit corporation, created a fictitious entity in order to raise money by soliciting investors to invest in the financial services entity.
 14. Therefore, it appears that the Policies and Procedures document was created to bolster the fiction of the existence of a financial services company in order to induce investors to enter into "Agreements"/promissory notes with the company.
 15. Jackson and COC, through the "creation" of this fictitious entity employed a device, scheme or artifice to defraud in violation of Miss. Code Ann. Section 75-71-501(1). This was also an act, practice, or course of business which would operate as a fraud or deceit upon any person in violation of Miss. Code Ann. Section 75-71-501(3).

16. The Policies, Procedures document for the financial services company states “All checks shall be made payable to the Lampton Street Church of Christ, Inc.”
17. Jackson was integral to the deceit. The device, scheme or artifice to defraud could not have succeeded without his participation. His roles as Pastor and Trustee of the Church, and purported Executive Chairman of LSFS, gave the scheme credibility. Moreover, his position as Pastor to the investors and their trust in him was essential to the scheme.
18. This scheme began in 1991. During this time approximately Jackson, as a Pastor and Trustee of the church, had to have knowledge that the money raised in the early years was not used for the stated purpose. However, he continued to issue promissory notes without informing investors that the money previously invested had been spent for operation of the church and had not been used for loans and was not generating interest income.
19. Jackson signed the promissory notes with investors as “Trustee.” Jackson was Trustee of the Church, not LSFS.
20. The credibility of the notes was bolstered by Jackson signing the notes as “Trustee” of COC. This led investors to believe COC stood behind the notes.
21. COC, in correspondence and in court pleadings, has acknowledged its responsibility for repayment of these debts.
22. Further, COC has attempted to absolve Jackson for any personal liability for his role in the offer and sale of these promissory notes.
23. The promissory notes were not registered, exempt, or federal covered securities and were therefore sold in violation of Miss. Code Ann. Section 75-71-401.

24. Jackson was not registered as an issuer agent with the Division in violation of Miss. Code Ann. Section 75-71-301.

IV. APPLICABLE LAW

25. Pursuant to Miss. Code Ann. Section 75-71-107(a), the administration of this chapter is vested in the Secretary of State of Mississippi.

26. Pursuant to Miss. Code Ann. Section 75-71-119 provides in pertinent part:

(a) Sections 75-71-117, 75-71-301(a), 75-71-401, 75-71-408, 75-71-501 and 75-71-717 through 75-71-731 **apply to persons who sell or offer to sell securities when (1) an offer to sell is made in this state, or (2) an offer to buy is made and accepted in this state.**

27. Promissory notes are included in the definition of securities. Miss. Code Ann. Section 75-71-105(n) provides as follows:

(n) "Security" means any **note**; stock; treasury stock; bond; debenture; evidence of indebtedness; certificate of interest or participation in any profit-sharing agreement; collateral-trust certificate; preorganization certificate or subscription; transferable share; investment contract; voting-trust certificate; certificate of deposit for a security; certificate of interest or participation in an oil, gas or mining title or lease or in payments out of production under such a title or lease; interest in a limited partnership; viatical settlement investment contract or a fractionalized or pooled interest therein; or, in general, any interest or instrument commonly known as a "security," or any certificate of interest or participation in, temporary or interim certificate for, receipt for, guarantee of, or warrant or right to subscribe to or purchase, any of the foregoing. "Security" does not include any insurance or endowment policy or annuity contract under which an insurance company promises to pay a fixed or variable sum of money, or both, either in a lump sum or periodically for life or some other specified period.

28. Miss. Code Ann. Section 75-71-301 prohibits unregistered individuals from acting as agents in this state. It states

Except as provided for in Section 75-71-109(a), **it is unlawful for any person to transact business in this state as a broker-dealer or agent** unless he is registered under this chapter.

Except as provided for in Section 75-71-109(a), it is unlawful for any broker-dealer or issuer to employ an agent unless the agent is registered. The registration of an agent is not effective during any period when he is not associated with a particular broker-dealer registered under this chapter or a particular issuer. When an agent begins or terminates a connection with a broker-dealer or issuer, or begins or terminates those activities which make him an agent, the agent as well as the broker-dealer or issuer shall promptly notify the Secretary of State.

29. The Act also requires issuers to register their offerings. Miss. Code Ann. Section 75-71-401 provides as follows:

Except as provided for in Section 75-71-109(a), it is unlawful for any person to offer or sell any security in the State of Mississippi unless: (1) it is registered under this chapter or Section 37-155-115; (2) the security or transaction is exempted under Article 3 of this chapter, or (3) it is a federal covered security.

30. Miss. Code Ann. Section 75-71-501 provides as follows:

It is unlawful for any person, in connection with the offer, sale or purchase of any security, directly or indirectly,

- (1) To employ any device, scheme or artifice to defraud;
- (2) To make any untrue statement of a material fact or to omit to state a material fact necessary in order to make the statements made, in light of the circumstances under which they are made, not misleading; or
- (3) To engage in any act, practice or course of business which operates or would operate as a fraud or deceit upon any person.

30. Pursuant to Miss. Code Ann. Section 75-71-715, the Secretary of State may:

- a. Issue a cease and desist order against the person or persons engaged in the prohibited activities, directing them to cease and desist from further illegal activity (Miss. Code Ann. Section 75-71-715(1)).

- b. Issue an order imposing an administrative penalty up to a maximum of Twenty-Five Thousand Dollars (\$25,000.00) for each offense with each violation to be considered a separate offense (Miss. Code Ann. Section 75-71-715(2)).

V. CONCLUSIONS OF LAW

- 31. The “Agreements” are notes and as such, are securities as defined in Miss. Code Ann. Section 75-71-105(n).
- 32. These promissory notes were neither registered with the Division, nor were they federal covered securities in violation of Miss. Code Ann. Section 75-71-401.
- 33. LSFS does not currently exist, nor did it exist at the time any of the notes were entered into. Promissory notes issued by fictitious entities are not exempt securities pursuant to Miss. Code Ann. Section 75-71-203.
- 34. Jackson was not registered with the Division as an agent of either a broker-dealer or issuer in violation of Miss. Code Ann. Section 75-71-301.
- 35. COC violated the Act by taking funds designated for investment purposes and using them for non-investment purposes. By depositing the money in its general accounts and using the money for its operating expenses, COC participated in misleading its members and the investors in violation of Miss. Code Ann. Section 75-71-501.
- 36. The fact that LSFS never existed supports the fact that the money raised from investors was intended to be used to support COC, not for LSFS’s stated purpose. LSFS, COC, and Jackson misled investors by leading them to believe they were investing in a financial services entity in violation of Miss. Code Ann. Section 75-71-501.

V. NOTICE OF INTENDED ACTION

37. The previous paragraphs are incorporated herein by reference. As provided in Miss. Code ann. Section 75-71-715, the Secretary of State intends to take the following action:
- a. Order Lampton Street Church Financial Services, Inc., Lampton Street Church of Christ, Inc., and Harvey M. Jackson to Cease and Desist from further illegal activity in the State of Mississippi.
 - b. Impose an administrative penalty of up to Twenty-Five Thousand Dollars (\$25,000.00) for each offense against each Respondent—with each violation to be considered a separate offense in a single proceeding—taken in violation of the Mississippi Securities Act 2000.
38. This order shall remain in effect until further directive of the Secretary of State.

VI. PUBLIC INTEREST

39. The actions taken and proposed to be taken herein by the Secretary of State are in the public interest and are consistent with the purposes set forth in Miss. Code Ann. Sections 75-71-101, *et. seq.*

VII. AMENDMENTS

40. The Division reserves the right to amend this Summary Cease and Desist Order and Notice of Intent to Impose Administrative Penalty.

VIII. RIGHT TO AN ADMINISTRATIVE HEARING

An administrative hearing may be requested in this matter. NOTICE is hereby given that Respondents have thirty (30) days from the date of receipt of this Summary Cease and Desist Order and Notice of Intent to Impose Administrative Penalty to provide written notice of their

request for an administrative hearing to Patricia Melvin, Office of the Secretary of State, Post Office Box 136, 700 North Street, Jackson, Mississippi 39205-0136.

If such hearing is requested, written notice of the date, time, and place of such hearing, as well as a designation of the Hearing Officer, will be provided to all parties via certified mail, return receipt requested. Respondents may appear at the hearing with or without the assistance of counsel. Respondents will have the right to cross-examine witnesses and present testimony, evidence and argument relating to the matters contained herein. Upon request, subpoenas may be issued for the attendance of witnesses and for the production of books and papers on Respondents' behalf.


In the event such written notice for a hearing is not received within thirty (30) days, a FINAL CEASE AND DESIST ORDER AND ORDER IMPOSING ADMINISTRATIVE PENALTY may be entered in this proceeding without further notice.

IX. ORDER

IT IS, THEREFORE, ORDERED AND ADJUDGED, pursuant to the authority set forth in Miss. Code Ann. Section 75-71-715 that Respondents shall immediately CEASE AND DESIST FROM ANY FURTHER ILLEGAL ACTIVITY IN, OR ORIGINATING FROM, the State of Mississippi in connection with the offer and sale of securities.

ISSUED, this, the 3rd day of June, 2010.

C. DELBERT HOSEMAN, Jr.
Secretary of State

By: 
PATRICIA MELVIN
Chief Counsel
Securities and Charities Division